

A review by the Federal Reserve Bank of Chicago

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Business Conditions

1953 October



Contents

U. S. spending heads downward	4
Sales wilt, but recover	7
Prices chart diverse trends	9
Farm income cut by price declines	12
Deposit trends	16
The Trend of Business	2-3

THE Trend OF BUSINESS

THE INDUSTRIAL MIDWEST has held a favored position during the post-Korean business surge. The principal reason is not hard to find. Expansion of durable goods output—civilian and military—has been the mainstay of the boom.

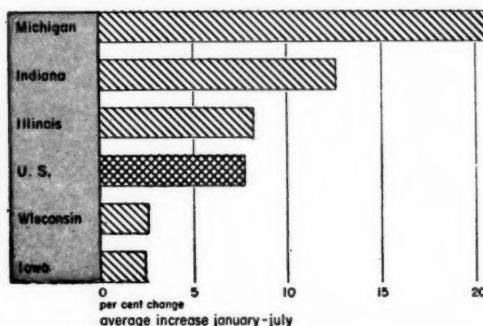
The area encompassed by the rectangle formed by Milwaukee, Chicago, Indianapolis, and Detroit contains the greatest concentration of metal-using firms in the world. These cities and their neighbors account for a very high proportion of the nation's output of cars and trucks, army tanks, machinery, aircraft engines, and electrical equipment. More than one-fourth of the nation's hard goods production takes place in the Seventh District states of Illinois, Indiana, Michigan, and Wisconsin, although these states contain less than 15 per cent of the population.

The absolute level of activity has been extremely high in the Midwest, but relative gains over year ago have been even more outstanding. The year-to-year comparison, of course, is colored by the allocations which interfered with civilian goods production through much of 1952 and the crippling steel strike which caused many types of steel users to suspend or drastically curtail operations in the middle of the year. In 1953, however, the economy is reaping the full benefits of the vigorous measures taken in the past three years to boost capacity of such basic industries as steel, aluminum, and electric power.

The excellent showing of the Midwest relative to national experience so far this year is revealed in a number of measures of business activity.

Manufacturing employment growth in all District states has been especially rapid; the

Manufacturing employment gains greater in Midwest than the nation



total now exceeds the high levels of World War II. This contrasts with national factory employment which, although running well above any previous postwar year, is still slightly below the 1943 average.

The tight employment situation which has prevailed in the Midwest is indicated by the length of work week in manufacturing. The average for the nation for the first seven months of 1953 was 40.8 hours per week, as compared with 41.3 hours in Illinois and Indiana and over 42 hours in Michigan and Wisconsin. The length of the average work week has been slipping moderately in recent months as more workers were hired in some industries and as demand for some products eased.

Steel production in the Chicago and Detroit areas regained capacity levels in August and September whereas the national figure averaged about 90-95 per cent of capacity. Although Midwest steel producers will feel the effects of any substantial weakening of demand for steel,

the impact may be less severe here since this area consumes more steel than it produces.

Total construction awards, as tabulated by F. W. Dodge, were more than 13 per cent above last year for the first eight months of 1953 in the District as compared with a less than 6 per cent gain for the nation. Awards in this area were exceptionally large in July when the total exceeded any previous month on record by a substantial margin. In August they receded to a level slightly under the year-ago figure.

Private housing starts for the first eight months of 1953 were 21 per cent above last year in the Chicago area and 14 per cent higher in Detroit. For the nation the gain was only about 3 per cent. Although the Detroit volume fell off in July and August, the Chicago housing market at the present time is probably the strongest for any large city in the nation, partly as a result of the stimulus provided by the ending of rent control. August starts were one-third greater in Chicago than in 1952 whereas the national figures dropped below the earlier period.

Retail trade has responded to the surge in the District's employment and income. Through

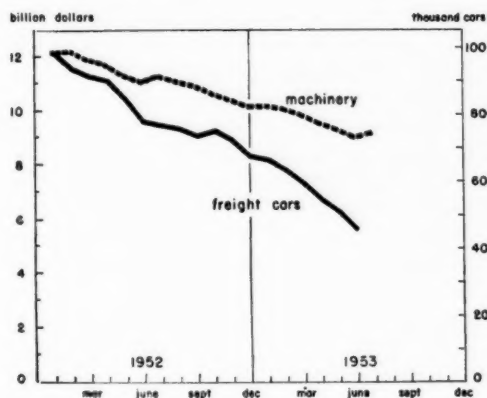
the middle of September, District department store sales were up 5 per cent from last year compared with 3 per cent for the nation. The comparison is even more striking for all retail stores, which include the automobile dealers who have been doing about one-third more business than last year. For the first seven months of the year, sales at large stores of all types reporting to the Department of Commerce were 13 per cent above last year in the Chicago area, 16 per cent above in Fort Wayne, and 21 per cent above in Detroit whereas the national total for all retail stores was only 6 per cent higher.

The rosy glow may fade

The intensity of District activity in the recent past provides small grounds for complacency in viewing the near-term outlook. In fact, the very factors which have contributed to the especially high level of activity in District states may also cause the area to be affected more adversely by a business recession, however moderate. Changes in total business are magnified in the case of hard goods industries because these products are long-lived and new purchases may be postponed.

Many firms in the farm machinery industry, three-fourths of which is concentrated in this area, have already cut output sharply below the level of last year. There is a general expectation that automobile output in the fourth quarter will be at a rate substantially below that of recent months, partially because of model change-overs by major firms. Producers of industrial machinery and railroad equipment—of great importance in this region—are watching order backlogs melt away as deliveries outrun new orders (see chart). Machine tool builders report that unfilled orders now represent only seven months of production at current rates compared with 23 months in the fall of 1951. Finally, the defense program can no longer be counted among the strong expansionary forces. Total military spending is scheduled to decline in the near future.

Capital goods order backlogs in gradual slide



U. S. spending heads downward

Fiscal 1954 expenditure to decline, receipts expected to rise.

THE OFFICIAL *Review of the 1954 Budget*, released by the Bureau of the Budget on August 27, is probably the last over-all treatment of Federal tax and expenditure plans that will be available until the 1955 budget appears next January. This midyear review summarizes Congressional action on budget requests for the current, or 1954, fiscal year and presents the most recent estimates of expenditures and tax revenue. The outstanding fact about the budget, viewing it not as a grapple with burgeoning defense spending and all-time high tax rates, but rather in terms of its impact upon the economy, is that for the first time since Korea total Federal expenditure is expected to begin falling off.

The 1.1 billion anticipated decline in spending, from 1953's 76.6 billion dollar level, is evidence that the big build-up in armed might, which began with Korea, has reached a plateau. Until now, growth in total expenditure closely paralleled the expansion in defense outlay. The rate of increase slowed after 1952, although peak levels only recently have been attained. Annual changes in Federal spending (in billions):

	<u>Total</u>	<u>Defense</u>
1950 to 1951.....	\$+ 2.6	\$+ 7.9
1951 to 1952.....	+22.2	+19.2
1952 to 1953.....	+ 8.6	+ 4.7
1953 to 1954		
(estimated)	- 1.1	- 1.9

Whether Federal expenditure in fact will turn downward necessarily depends upon the stability of the assumptions upon which the budget is predicated. Any major change in the international situation, a pronounced upset in domestic economic conditions, re-evaluation of public policy on any number of issues domestic

and foreign alike, of course, would likely result in abrupt revision of present plans calling for retrenchment.

Implications of lower expenditure

When the Government buys goods and services, it contributes directly to total demand. When it pays interest on Federal debt held by institutions and individuals, grants-in-aid to the states, or social security benefits, thereby placing in the hands of others funds that they will spend, Government's contribution to demand is indirect, but nevertheless real. The indirect contribution through interest, old-age pension, grant-in-aid, and similar payments of a "transfer" nature accounts for about a quarter of all Federal spending for 1954, compared with about 40 per cent in 1950. To the extent that recipients of such payments elect to defer the spending or investment of funds they receive, the pressure upon demand by this type of Federal outgo is dampened. Direct expenditure, for the purchase of goods and services, more surely stimulates total demand.

In recent experience the Federal Government's direct purchases of goods and services plus the spending power it has conferred on others through transfer payments have been running at a rate sufficient to account for about one-fifth of the value of all goods and services produced by the economy. The decline in Federal outgo expected to show up in 1954 is small, and spending originating from other sources—private consumption expenditure, business investment in plant and equipment, and "autonomous" state and local construction and operation—may well expand to offset it.

In contrast to recent years, rising Federal demand will not be present to take up any slack in private spending and investment. In a dynamic

economy, rising total expenditure appears prerequisite to the support of full production and employment. Increasing productivity and a growing labor force mean that the nation's stream of goods and services tends continually to enlarge in volume, with the result that expenditure must grow commensurately. This consideration gives deeper significance to the prospect of an outright cutback, however small, in the scale of Federal spending.

Budget in balance

Operating deficits totaling 13.4 billion dollars in so-called budgetary terms were recorded for the 1952 and 1953 fiscal years. This total more than offset the 3.5 billion surplus for 1951 and will be augmented by another 3.8 billion in store for 1954. Altogether, therefore, the post-Korean period through next June will have accumulated a net deficit, in budgetary terms, of more than 13 billion dollars—an imposing total, but a distortion of the Federal budget's impact on the economy. Actually this deficit, by adhering to the peculiarities of Governmental accounting practice, incorporates a variety of transfers to trust accounts maintained by the Government as well as noncash interest accruals; yet it fails to recognize the substantial net surplus of social security operations. Far more meaningful is the cash deficit or surplus which simply nets the totals of direct money payments and receipts between the Government and the public. In these terms, the picture is different. During the post-Korean period through fiscal 1953, a cash surplus had accumulated. For 1954 a small deficit, on the order of 400 million dollars, seems in prospect, so that for the whole period, a net surplus of 2 billion in cash terms is to be compared with the budgetary net deficit of 13 billion.

Budgetary receipts for 1954 have been estimated at 68.3 billion dollars, in contrast to 65.2 billion realized in 1953. The 1954 estimate takes into account the reduction in personal income tax rates, expiration of the excess profits

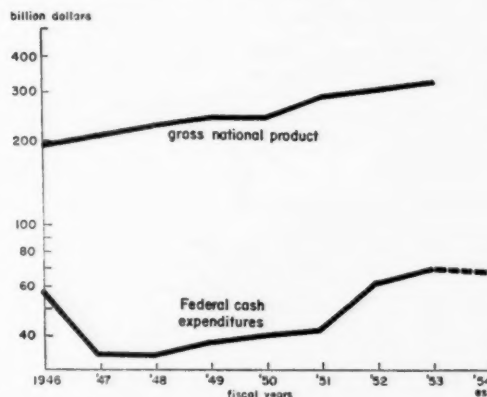
tax, and the increase in payroll taxes all scheduled for January 1, as well as the changes in excises slated to take place at the end of March. Following are actual budgetary receipts in 1953 along with fiscal 1954 estimates for the two leading categories of Federal income (in billions):

	1953 actual	1954 estimated
Direct taxes on individuals	\$33.4	\$34.9
Direct taxes on corporations	21.6	22.5

The anticipated rise in receipts implies a relatively optimistic forecast for this year's personal income. Since the yield of the Federal tax system depends so intimately upon the nation's economic health, deterioration in business conditions could sharply change revenue estimates and, consequently, the deficit forecast for the year.

The comparative elasticity of Federal tax yields is sometimes spoken of as a "built-in stabilizer." As incomes move upward or downward, in response to higher or lower levels of economic activity, tax receipts also tend to rise

Rising Federal outlay accompanied recent growth in national product



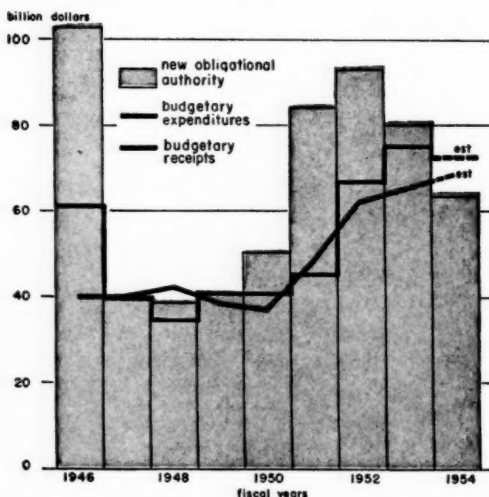
or fall, but in greater proportion than the income level itself. The reason for this is mainly that the important personal income tax has a flat dollar exemption and a progressive rate structure. When incomes move upward into higher marginal-rate brackets, the "effective" rate of taxation rises; when they drop, the effective rate falls. This assumes that compensating changes in the rate schedule, exemptions, etc., are not introduced as an offset.

Since the expectation that tax receipts in fiscal 1954 will exceed the totals recorded last year means, in effect, that personal income will continue to rise, it is clear that the budget assumes that the anticipated shrinkage in Federal spending will be more than offset by higher spending in other sectors.

Spending pattern a familiar one

Expenditures projected for 1954 are distributed much as those for 1953. Notwithstanding a reduction of more than 2 billion dollars in spending proposed for the Department of Defense, the military and allied cate-

Spending authority tapers off with passing of build-up phase in defense



gories—atomic energy, foreign affairs, veterans' services—again will account for the lion's share of the total.

Estimated budgetary expenditure for 1954 compares as follows with actual spending in 1953 (in billions):

	1953 actual	1954 estimated
Total	\$74.6	\$72.1
Military services	60%	59%
International affairs	8	9
Veterans' services and benefits	6	6
Natural resources (incl. atomic energy) ..	4	5
Interest	9	9
Social security, welfare, and health	3	4
All other	10	8

Budget inflexibility

The Government's budget for any one year cannot be broken away from its predecessors and evaluated in isolation. On the contrary, it is in many vital respects a product of budgets that have preceded it. The force of precedent is strong in dictating retention of established Governmental programs and activities; and the influence of prior commitment of spending authority is perhaps even stronger.

Much of Federal expenditure—notably in the sphere of military hard goods procurement—has to do with the acquisition of heavy capital assets. There is a substantial lag between the time funds are made available in the form of an appropriation and the time production gets under way and delivery of the goods begins. It is not surprising, therefore, that a sizable fraction of the total expected to be paid out of the Federal Treasury this year will serve to discharge obligations incurred last year, the year before, and even earlier. Moreover, some of the appropriations Congress has already enacted for fiscal 1954 will not be spent this year at all. Most of them will be "obligated," however, even if they are not in fact spent, and thus will give rise to expenditure in future budgets.

Since the start of the Korean conflict, Congress each year has provided the various agencies of the Government, chiefly the Defense Department, with impressive grants of new obligational authority. This has permitted the agencies to negotiate supply contracts with producers of aircraft and other goods and to initiate construction on defense installations. Many of these procurement programs have been of a long-range nature. Authorizations to spend and to incur obligations, that is, to "commit" appropriations, therefore, continually outran actual spending. Even at the start of this fiscal year, some 81 billion dollars remained in unused balances of expenditure authorizations. Part of this will be liquidated by next June 30, but much will carry over into fiscal 1955, and some into even later years.

The decline in new obligational authority appears to reflect an easing of the pressures of the cold war and to herald lower defense spending. In this sphere, however, the Kremlin and technology will exert predominant influence upon the nation's plans. The targets set for the arms build-up now have been reached or at least sighted, but they could be outmoded overnight. We are not laying the capstone for a citadel to serve a generation of Americans.

The perfection of better weapons forces replacement of prior military investment before it has "worn out." Obsolescence undoubtedly is a far more important item of military outlay than maintenance and routine replacement. And its cost is unavoidable; the nation cannot cling to technically inferior weapons. Every advance demands to be exploited. Cost is subordinate; second-best defense is no better than none.

The decline in new obligational authority thus may prove deceptive. Drawing conclusions as to its expenditure implications is risky. All that can be said with certainty is that when such authority was projected, a falling-off in expenditure appeared in prospect. Whether this will materialize, how great it will be, and whether it will persist can hardly be foretold.

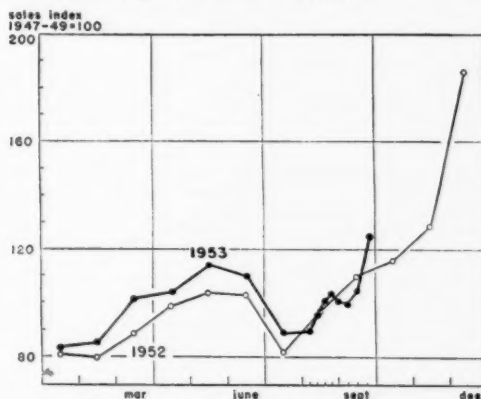
Sales wilt, but recover

Volume leading year ago; final results will depend heavily on Christmas trade

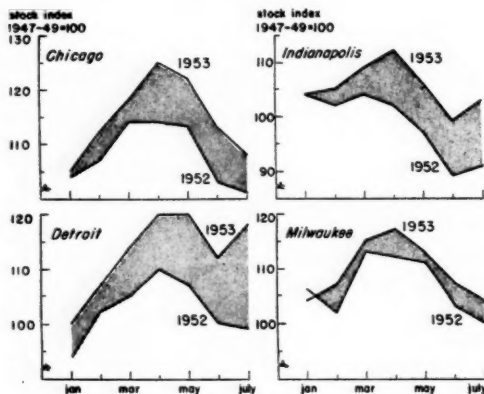
DEPARTMENT STORE SALES rocked along in the first seven months of 1953 with a comfortable 6 per cent gain over year-ago volume. Any complacency which may have developed in circles which rely heavily on this measure as a barometer of business activity, however, received a sharp jolt as sales dropped well below the corresponding 1952 level in the closing days of August and the first week of September.

Although the unexpected decline in sales was hopefully attributed to the heat wave that engulfed the nation at that time, there was an undertone of concern that the slump might foretell a general slide-off in retail sales. In addition, the change in date of Labor Day made sales comparisons with year-ago

August-September slump in department store sales stirs uncertainty in retail centers



Inventories exceed 1952 in all major cities, generally maintain year-ago ratio to sales



volume of questionable value. This further added to the uncertainty.

Rising sales in mid-September, however, dispelled part of the foreboding generated in the preceding weeks and suggested that those who attributed the slump to the heat wave had been on the right track.

More important is what lies ahead. To the extent that the "Labor Day slump" represented merely a postponement of purchases, it would tend to boost volume in succeeding weeks. However, there are numerous other indications that the important fourth quarter has at least a fighting chance to top 1952 volume.

Income and employment continue higher than last year, and consumers' holdings of cash and deposits have been rising. Even though consumer debts have advanced rapidly over the past year and a half, the proportion of sales for "cash on the line" at department stores has remained virtually unchanged, and collections on charge accounts are as good as last year. In short, consumers as a group have the wherewithal to support a continued large volume of sales. It is not clear, however, that those who have the funds also have the appetite to buy.

Nevertheless, department store managers are carrying larger stocks of goods than in 1952. Ample inventories will tend to improve sales prospects because a broad selection of merchandise is thereby assured. Also, it lays the groundwork for intensive selling efforts if consumers should adopt a more lethargic buying pace. While large stocks will help to support a good sales volume, they do not necessarily point to a satisfactory profit picture.

A Christmas rush?

Although the story of 1953 department store sales makes pleasant reading thus far, the important concluding chapter remains to be written. The October-December period, culminating in the annual Christmas rush, accounts for about one-third of the annual sales volume. What happens in the final quarter, therefore, can largely determine the over-all results for the year.

All major Midwest cities participated in the sales gain chalked up thus far, but in varying degrees. Detroit stores lead with an increase of 12 per cent over their year-ago volume, while Chicago and Milwaukee stores stood at the bottom of the line-up with only a 2 per cent gain. Scattered through this range were Indianapolis with a gain of 6 per cent and numerous other smaller cities.

Specialized retail outlets have had a similar experience. Sales at District apparel stores for the year through July showed an increase of 8 per cent, while sales at household appliance stores were up 10 per cent. Modest gains of 5 per cent were recorded in furniture store sales, and 3 per cent for jewelry stores.

It may be significant that the margin of gain over a year ago did not widen in July and August. Layoffs in metal fabricating industries—due to the steel strike—exerted a drag on sales in those months last year. The fourth quarter of 1952, however, was exceptionally strong. Thus, it remains to be seen whether sales will show sufficient strength to set a new record for the 1953 Christmas buying season.

Prices chart diverse trends

Individual price changes are making news, but offsetting gains and losses mean little over-all change.

PRICE AVERAGES HAVE REMAINED surprisingly stable over the past year, despite the upsurge in business and the ending of controls. A show of strength in recent months centered in such basic commodities as crude oil, which advanced for the first time in half a decade, steel, aluminum, and paper. Utility and transportation rates have continued to move up, and certain producers of appliances and TV sets have raised list prices despite admittedly ample inventories. In August the "cost-of-living" index moved to a new high for the third successive month. These scattered signs, however, do not indicate a general advance along the price front.

While some prices have been rising, others such as farm commodities, nonferrous metals, plywood, and automobiles at retail have fallen. Warehouses are well stocked with goods of all types, the world supply situation is the easiest since '49, and manufacturing capacity is much larger than in earlier years. Moreover, apprehension over future business trends has made buyers and sellers increasingly cautious about asking or paying higher prices.

Following price trends

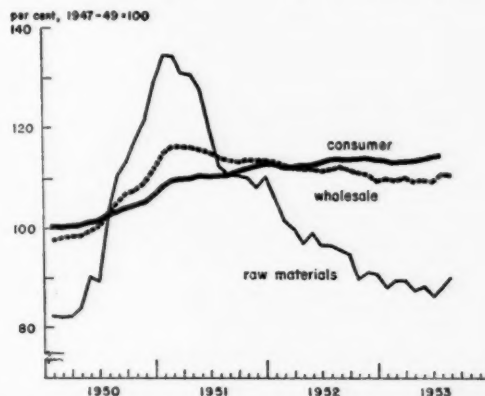
The diversity of recent price movements, especially since decontrol, provides a good case study of the private enterprise economy at work. Price changes constitute the means by which forces of supply and demand influence the course of business activity, line by line. In this way, adjustments of production and buying are signaled, and "shortages" and market gluts of long duration are avoided.

The nebulous concept of "the general price level" or "the purchasing power of the dollar" is often talked about, but seldom defined. Comprehensive measures of price movements

are extremely difficult to construct because the goods and services which must be included lack homogeneity. Even indexes which are limited in scope should be used with caution. Comparability over a period of time is gradually undermined by the introduction of new and improved products and shifts in expenditure patterns.

Despite unavoidable imperfections, price indexes provide the best means of following broad movements. The most useful of these, all prepared by the Bureau of Labor Statistics, are the Spot Commodity Price Index, the Wholesale Price Index, and the Consumers Price Index, the last commonly used as a measure of the "cost-of-living." Twenty-two basic raw materials such as wheat, copper, and wool are included in the Spot Commodity Index. The Wholesale Price Index includes these items plus about 2,000 other raw materials and finished or semi-finished goods. The Consumers Price

Price averages level off in past year



Index covers about 300 different goods and services commonly purchased by moderate income families.

Spot commodity or raw material prices are the easiest to measure and the most sensitive to sudden changes in economic forces. At the other extreme, consumers' prices are relatively slow moving and are hard to gauge because of the vast variety of finished goods and services available and the great variation in spending habits of individuals.

Raw materials—the balloon descends. Spot cash prices for raw materials ascended rapidly after the start of the Korean war. By January of 1951, these prices averaged 50 per cent higher than in June 1950. Domestic production of many items such as tin, coffee, rubber, and wool is far below the needs of U. S. industry. Competition in world markets for these materials during the war scare months was intense, and prices surged upward.

Raw material prices in most cases hit peaks early in 1951 as fears of critical shortages were stilled and buyers taxed their financial resources. Since that time most commodity prices have drifted downward. In recent months average prices of raw materials have actually sunk be-

low the June 1950 level.

Particular commodities performed even more flamboyantly than the index. Rubber jumped from 29 cents per pound to 74 cents and then receded to 23 cents; tin, from 77 cents to \$1.72 and back to 79. Wool prices doubled, then settled back to pre-Korea levels. In brief, the Korea-induced inflation of spot commodity prices has now been liquidated.

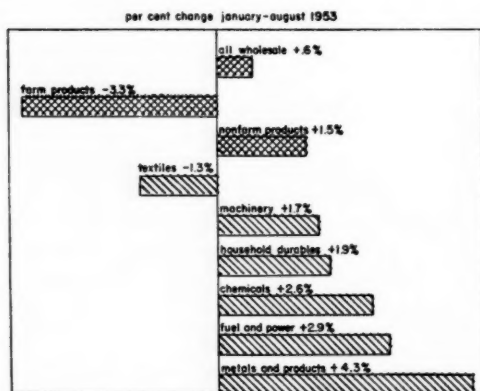
Wholesale prices—lo! the farmer. The Index of Wholesale Prices has remained virtually unchanged since last November, following the downward movement of about 5 per cent from the high reached in February and March of 1951. Since last fall farm products have fallen 7 per cent, but industrial goods *rose* slightly—enough to offset the effect of the decline in farm prices on the wholesale index.

Prices determined by "free market forces," most characteristic of farm products and certain raw materials, have become a less important part of the price structure through the years. The increasing complexity of economic life has resulted in an ever-growing number of differentiated products which are priced separately and are not subject to daily quotation on commodity exchanges. It is the highly flexible prices which have accounted for almost all of the declines shown by the indexes in the past two years. This is because these prices registered the full effect of the spurt in demand and speculative buying in the early post-Korean period and subsequently fell back as supply expanded and demand eased.

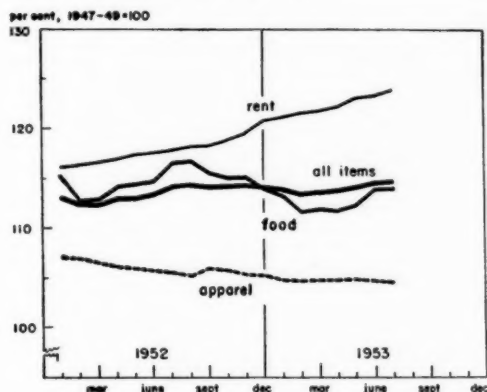
Factory prices—a different story. Industries characterized by "administered prices," set deliberately by management after consideration of market forces, change rather slowly. Price policies of the average manufacturing firm have been directly affected in recent years by such factors as price controls and public and employee relations. Since decontrol, apparently strong markets have been tested for price resistance, often immediately after new wage agreements boost production costs.

Some of these recent increases, such as the

Wholesale prices: some up, some down since decontrol



Food and rent cause small rise in Consumers Price Index



hikes for petroleum products and paper, will be surrendered if large supplies and expanded capacity dictate such a course. Gasoline and fuel oils have already experienced some reductions.

Indirect price adjustments will be made for some products if demand flags. Transactions often involve service charges which may be reduced or waived if a price concession appears desirable. For example, the steel industry is now said to be giving thought to a return to a delivered price system under which the seller absorbs freight charges.

Consumer prices—slow but sure. For more than a year and a half, the Consumers Price Index has not varied as much as 2 per cent. Within the aggregate, food and apparel are significantly below their post-Korea highs whereas rents, utility rates, and most services have continued steadily upward.

Retail prices characteristically move more leisurely than commodity or wholesale prices. In part this is because distribution and production costs do not change proportionately with the costs of raw materials. For example, wheat prices have been weak in recent months, but bread has been advanced a cent a loaf in several cities. Custom and tradition also play a part.

In the day of the "50-cent dollar" chewing gum, for example, is still five cents.

Too much weight should not be placed upon the fact that the Consumers Price Index hit successive highs in the summer months. Over-all gains were meagre and were traceable principally to certain types of foods and to rent. During the same period, cash discounts from list prices on new cars and appliances have become more general as inventories rose at the dealer level. Additional evidence that the average consumer does not face importantly higher living costs is indicated by the fact that price cuts far outnumbered increases in the fall catalogs of mail order firms.

On a new plateau?

Despite the widespread attention given recently to small movements in the major price indexes, it is apparent that the nation has enjoyed a period of relatively stable prices in the past year. Inflationary pressures persist and doubtless will continue, world tensions being what they are. Nevertheless, there is strong evidence that the post-Korean boom will see its crest some time this year. One thing is certain, general price inflation and a decline in business activity are contrary notions.

The economy has adjusted fairly well to the liquid assets and money incomes of consumers, business firms, and financial institutions. During the period in which the economy "grew up" to its money supply, the price structure has been bolstered by higher wages, taxes, and other costs which will resist downward adjustment.

Some prices will move lower in response to heavy supplies. Others such as the rates of regulated electric and gas utilities and transportation firms, at least, will rise further. Meanwhile rigidities continue to develop in the overall price structure at present levels. The history of price movements indicates that a considerable degree of stability is usually maintained in the absence of armed hostilities or a collapse in business activity.

Farm income cut by price declines

Midwest slumped less than the nation in the first half of 1953 but may lose its advantage in the months ahead.

PRICES OF FARM PRODUCTS have been sliding since February 1951. While the declines have varied as to degree and timing, nearly all important commodities have participated in the movement. In August, prices received by farmers averaged 20 per cent below the post-Korea peak reached two and a half years earlier.

Until recent months, however, the volume of farm products marketed increased enough to offset the effect of declining prices on farmers' gross receipts. The volume of marketings in 1952 was 5 per cent larger than in the preceding year, and the first half of the current year saw a 3 per cent gain over the corresponding period a year earlier. With the step-up in volume largely offsetting the downward trend in prices, farmers took in 32.4 billion dollars from the sale of their products in 1952, only slightly less than the record 32.8 billion received in the preceding year.

Beginning last fall, however, cash receipts from farm marketings dropped below the year-earlier level and have continued to lag as the effect of price declines overbalanced the slowing growth in volume. For the first eight months of the current year, the drop in cash receipts

amounted to 1 billion dollars or 6 per cent. August receipts followed this pattern.

In the Midwest

Both livestock and crops have suffered price and income declines. Except for a number of eastern seaboard states, the drop in income from livestock has generally blanketed the nation. Income from sales of crops, on the other hand, showed gains over the first half of 1952 in 19 states and a slightly larger total for the U. S. Gains were general in the Corn Belt where they offset a large part of the decline in receipts from livestock.

Excellent 1952 harvests of corn and soybeans, part of which were marketed or placed under price support loan in 1953, were primarily responsible for the more than 30 per cent rise in crop receipts in District states in the first half of 1953. In a number of states a good winter wheat crop also contributed to the boost in receipts. Since prices of crops averaged about 8 per cent lower than in the first half of 1952, the gain in crop income was due entirely to increased volume.

Receipts from livestock and livestock prod-

Price declines predominate among District farm products

Commodity	Farm price August 1953	Change from year ago
Potatoes, bu.	\$.91	-67%
Calves, cwt.	16.70	-36
Beef cattle, cwt.	16.30	-34
Lambs, cwt.	20.10	-21
Soybeans, bu.	2.40	-21
Hay, baled, ton	20.60	-15
Corn, bu.	1.48	-15
Milk, cwt.	4.22	-12
Butterfat, lb. ....	.65	-11
Oats, bu. ....	.72	-10
Wheat, bu.	1.86	-9
Chickens, live, lb. ....	.26	-4
Wool, lb. ....	.53	0
Eggs, doz. ....	.50	+4
Beans, dry edible, cwt. ...	9.43	+12
Hogs, cwt.	23.60	+15

ucts were smaller in the first half of 1953 in all District states. A much larger volume of cattle was marketed, but fewer hogs. Output of dairy products and eggs showed moderate gains. Although prices of hogs and eggs were higher than a year earlier, the average for all livestock and livestock products was lower and District income from this source showed an 11 per cent decline.

Since most of their crop output is fed to livestock, District farmers realize income largely from the sale of meat animals and dairy and poultry products. In District states last year, for example, these accounted for 60 to 88 per cent of farmers' total receipts from marketings.

	Cash receipts (billions)	From livestock (per cent)	From crops (per cent)
Illinois	\$2.0	60	40
Indiana	1.1	69	31
Iowa	2.2	85	15*
Michigan	0.7	63	37
Wisconsin	1.1	88	12

*Iowa crop income was below normal due to the soft corn crop harvested in 1951.

Farm income prospects in this area, therefore, are always tied closely to production and price developments for hogs, cattle, milk, eggs, and poultry.

Within the livestock sector, hogs provide the largest receipts in Illinois, Indiana, and Iowa where they have long been dubbed "mortgage lifters." Hogs and cattle together provide nearly one-half of the District receipts. Milk sales top all other sources of farm income in Michigan and Wisconsin and provide about one-sixth of the District total. Poultry and eggs provide about one-tenth of the cash receipts from farm marketings; somewhat more than the 6 per cent from soybeans, but less than the 11 per cent from feed crops.

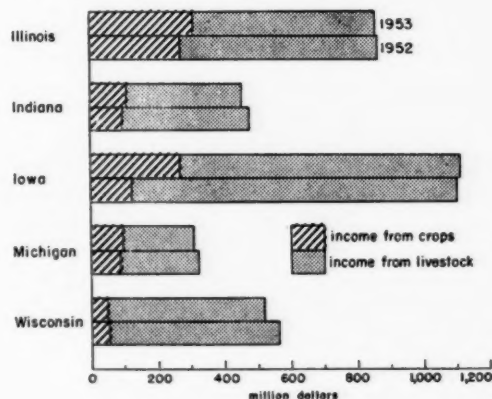
Exports decline sharply

A major factor in farm price and income

trends has been the weakening of the export demand for U. S. products. Exports in the year ending last June 30 totaled only 2.8 billion dollars. This was nearly one-third less than in the preceding 12 months and was the smallest dollar volume of agricultural exports since 1944-45. The weakening of export demand has been especially important in price developments for wheat, cotton, soybeans, and other commodities dependent on foreign outlets for a large part of their sales.

The domestic demand for farm products has remained strong, reflecting high levels of employment and personal income in commercial and industrial centers. Price changes for commodities dependent almost exclusively on the domestic market have reflected primarily changes in supply. This was the major factor in the drastic decline in cattle prices. As slaughter was stepped up, following the large build-up of herds on farms and ranches, prices fell sharply. Hogs provide another illustration. In this instance, however, production was cut back, bringing a striking improvement in prices. Shifts in competitive position have had important effects on prices of certain commodities—the gradual demise of butter as vegetable fats

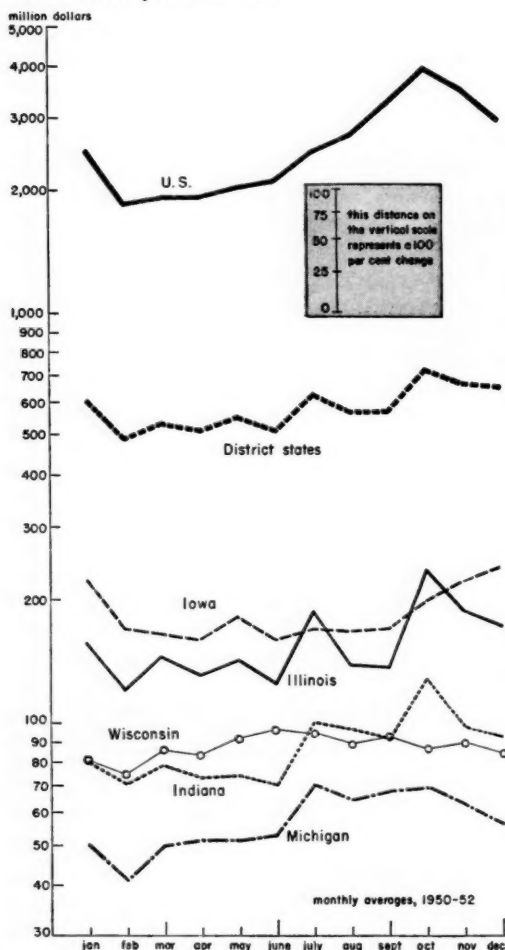
Boost in crop sales holds Iowa receipts at 1952 level in first half



cut deeply into its market, for example. Thus, even though domestic demand has continued strong, individual prices have shown substantial adjustments.

Price support measures have been in use for a number of commodities but with varying degrees of effectiveness. No doubt they have

Seasonal patterns of cash receipts reflect differences in crop and livestock production



tended to stabilize prices, especially where they take the form of outright purchase such as in the butter program. Nevertheless, many prices have slumped well below support levels.

The outlook

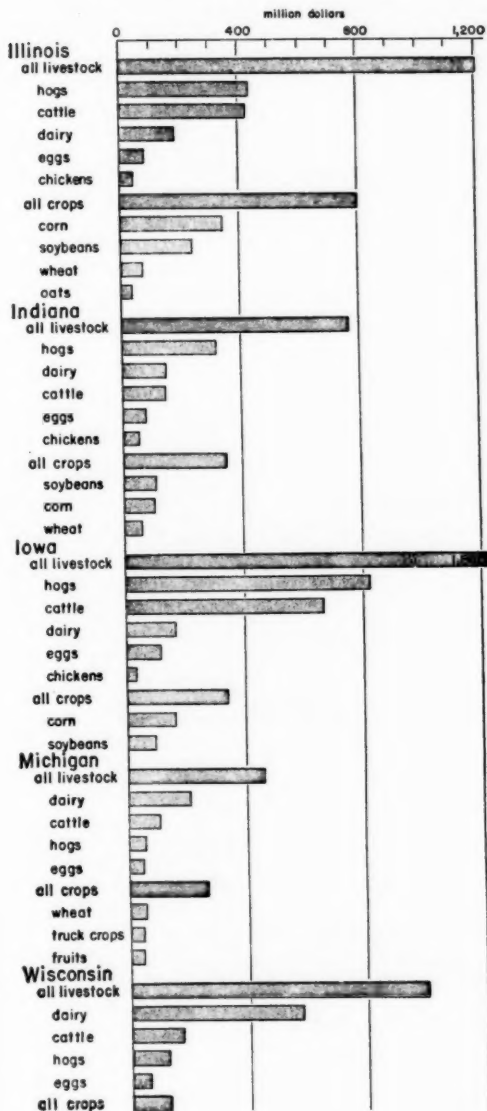
The seasonal peak in cash receipts from farm marketings in District states—as in the nation—is reached in October. In large part, this is due to the heavy seasonal movement of crops. However, cattle shipments also reach a seasonal peak at this time. Hog sales usually are rising rapidly from the summer low point and contribute to the October swell in the flow of cash to farming areas, although they do not reach peak volume until about year-end. The farm income stream tapers off rapidly in November and December, but the last quarter of the year accounts for a larger proportion of the annual total than any other three-month period in Illinois, Indiana, and Iowa. Therefore, developments over the remainder of the year will have an important bearing on the 1953 total and its standing in relation to other recent years.

Crop sales, at their seasonal peak in October, account for about 40 per cent of the District's cash farm income in that month. Although receipts from this source bolstered District income in the first half of the year, crops probably will provide fewer dollars in the second half than in the corresponding months of 1952. The gain in volume of marketings of crops has largely run its course for the time being. The 1953 harvests of corn and soybeans will be smaller than in the preceding year, and the District oat crop was the smallest for several years. Furthermore, prices of these commodities currently are well below year-ago levels and are not expected to show any strong upward surge in the near future. The District wheat harvest was larger than in 1952 but is not expected to yield a greater gross return.

Livestock production continues at a high level. Cattle, dairy products, and eggs will be marketed in at least as large a volume in the second half of the year as in the corresponding

Livestock provide key to farm income trends

(commodities providing \$40 million or more of receipts in 1951 or 1952 shown separately)



period of 1952. The major exception is provided by hogs, marketings of which have been on the downgrade for the past year.

Prices of hogs and eggs currently are above the year-ago level and are likely to remain in this favored position for the remainder of the year. Cattle prices at mid-August, however, were nearly 35 per cent below a year ago and probably will continue to exert a strong down-pull on cash receipts from marketings of livestock and livestock products.

The total flow of farm income in the Midwest in the remainder of the year, therefore, is likely to be well below that of the closing months of 1952 and to further widen the 3 per cent slump in cash receipts experienced in the District in the first half of the year.

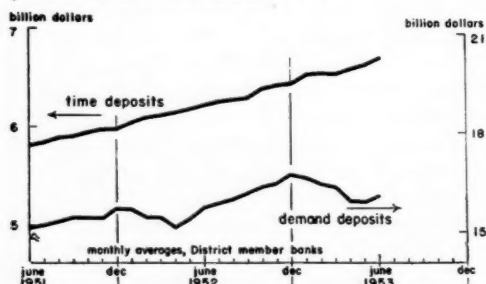
A favorable note is found, however, in the stability of the over-all index of farm product prices since June. While individual commodities have continued to fluctuate, the index has shown little net change. It appears, therefore, that prices are currently well adjusted to prevailing supply and demand conditions. Unless export demand should develop further weakness or domestic demand should contract as a result of a slump in employment and personal income, the general level of farm product prices may be expected to remain relatively stable through the fall and winter. But with prices averaging well below a year ago and a small reduction indicated in volume, cash receipts from farm marketings may be expected to show a further gradual decline relative to year-ago levels.

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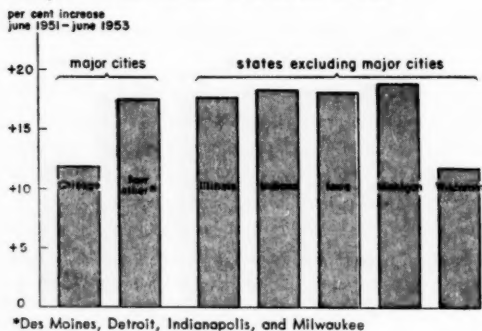
Deposit trends

DURING THE PAST TWO YEARS of comparative price stability, total bank deposits have expanded about in line with production. Significant trends in the distribution of deposits have developed, however, with areas of industrial and financial concentration losing deposits relative to less populous localities and people in all localities making larger additions to their savings accounts. How such trends have materialized in the Seventh District is pictured in the accompanying charts. Underneath temporary large-city bulges in deposits because of business and Government borrowing, these tendencies are likely to continue in the months ahead.

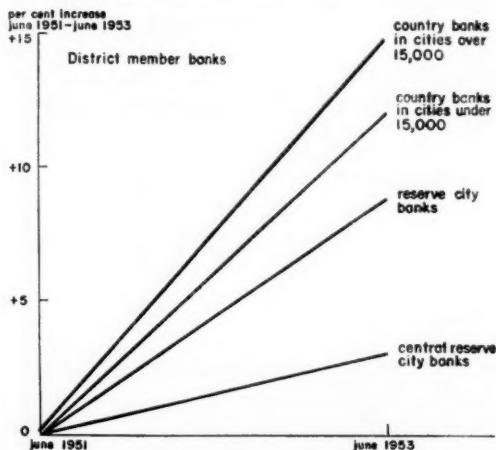
1. Time accounts have grown faster than demand . . .



2. . . with time increases fairly uniform in most District areas



3. Total deposit gains within the District have been sharpest in medium-sized centers . . .



4. . . and in such centers, the District growth was considerably higher than the national average

